Galp Energia
Fourth Quarter & Full Year 2008 Results and Strategy Presentation

Introduction

Tiago Villas, Head IR, Galp Energia

Good morning and welcome to Galp Energia fourth quarter and full year results conference call and strategy update as well. Joining me today is Manuel Ferreira De Oliveira, our CEO; and Claudio De Marco, our CFO. We will start our presentation with the fourth quarter results which will be presented by Claudio De Marco and then Manuel Ferreira De Oliveira will proceed with the presentation of the strategy update. Before starting the results presentation I want to draw your attention to the fact that since the 1st of November of 2008 the inventory cost method has changed from FIFO to weighted average cost. For this reason financial statements have been restated for both fourth quarter 2007 and 2007 as to make periods comparable. Let me just end by reminding you that we will be making forward-looking statement, so I would like to draw your attention to the disclaimer at the end of your presentation. And now over to Claudio.

Claudio De Marco, Chief Financial Officer (CFO), Galp Energia

Thank you, Tiago and good morning to all of you joining this call. I will talk about operating and financial performances of the full year and of the fourth quarter 2008. Let me just start from a brief look at full year results.

Slide # 3

In this slide you can see the difference in results on IFRS and the replacement cost basis for the year 2008. On IFRS, which takes into account the stock effect, our net profit was €117 million. On a replacement cost adjusted basis which more fairly reflects our operational performance, the net profit was up 14% year-on-year to €478 million, notwithstanding the increase in financial costs and less contribution from associates income. Financial costs are negatively affected by the higher average debt from €836 million to €1,134 million and by the increase of debt cost from 4.63% to 5.1%.

Slide # 4

Just a brief word on the stock effect that in 2008 was €355 million. This was mainly due to the decrease in the crude price in the last quarter of the year which started the fourth quarter at levels about $90 per barrel and decreased to less than $50 per barrel by the end of December.

Slide # 5

The operational performance in 2008 was driven by R&M segment which showed an increase in EBIT replacement cost adjusted of 47% year-on-year in 2008, thus more then offsetting the weaker results in Gas and Power segment. This has been penalized in the fourth quarter due to less volume and price and above all to the negative impact of the arbitrage process related to LNG+ contract.

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Slide # 6

Moving to capex, 2008 marks the starting year of a new size of capital expenditure by supporting interesting new initiatives. In fact 2008 spending reached €1.6 billion more than three times of last year. This spending is mainly focused in the R&M segment with a strong contribution of ESSO and Agip oil downstream activity acquisition in the Iberian Peninsula. The refining conversion project in Sines and Porto entered in a construction phase and started the E&P activity in the extended well test in Tupi.

Slide # 7

Looking at the balance sheet, the capital employed went up €978 million as a result of a significant increase in the fixed assets partially offset by decrease of working capital mainly due to crude oil price effect on inventory. As a consequence, the debt on equity ratio was up to 84%.

Slide # 8

Let's now move and analyze our debt and reimbursement profile. As already explained net debt reached €1.9 billion from which 66% corresponds to medium, long-term debt up from 53% in the third quarter 2008. We have taken measures to change our debt profile in order to hedge the interest rate risk against the current volatile environment.

The fixed debt now represents 32% of medium and long-term debt up from 13% in the third quarter 2008. The medium long-term debt reimbursement schedule is spread out between 2011 and 2012 and the average debt maturity of medium long-term debt is 3.7 years. Our liquidity position was €600 million and we'll elaborate on this topic later in the strategy update.

Slide # 9

The Board of Directors held yesterday intends to submit to AGM the proposal of a dividend per share of €0.32 of which €0.15 was already paid as interim dividend in October 2008. The balance of €0.17 per share will be paid in May.

Slide # 10

Sum up the full year 2008 results I would highlight that in the E&P sector the higher oil price was neutralized by the net entitlement production decreased due to the PSA effect while the Refining and Marketing posted a great performance. Natural gas volume reached 5.6 billion cubic meters, the best year ever. All in all our net profit replacement cost was up 14% year-on-year.

Slide # 11

Now, we are going on to the fourth quarter results. We'll now proceed to the analysis of each business segment and performance drivers during the quarter.

Slide # 12

On the E&P in the fourth quarter, the net entitlement production was up 60% quarter-on-quarter. The increase in production in Tômbua-Lândana field has helped to offset Kuito production natural decline.

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Slide # 13

The fourth quarter was very relevant for our Refining business. Our refining margin reached $5.8 per barrel up 7% Q-on-Q and fuelled by the continued recovering of fuel oil margin which went up $16.5 per barrel compared to third quarter 2008. The increase in margin was nevertheless negatively impacted by the delay in the start up of the fluid catalytic cracking unit at Sines refinery in the context of the planned outage.

Slide # 14

On the Marketing segment, the volume growth to the direct customers in Iberian area reached 17% year-on-year in the fourth quarter 2008. Here I must highlight the contribution of 0.6 million ton that resulted from Agip acquisition, which was consolidated since October.

Slide # 15

In the natural gas business, we had a light decrease in fourth quarter volumes, in the liberalization market when compared both to the same period last year and to the previous quarter. It was the result of lower volumes sold to the electrical and trading segments since fuel oil and coal were more price competitive during this quarter.

Slide # 17

All in all the operating profit was up 89% to €179 million boosted by the Refining market segment offsetting the worst result in the remaining segments.

Slide # 18

Let's now have a look to the net profit replacement cost which during the quarter reached €125 million with an increase of €83 million compared with the same period of 2007. Financial results were affected by the strong increase of debt in the quarter. The effective tax rate was 29%.

Slide # 19

The fourth quarter was very strong with an excellent performance at operating level with EBIT going up by 89% year-on-year on a replacement cost adjusted basis. The earnings per share doubled to €0.15. Under IFRS which takes into account unfavourable stock effect we report a net loss.

Slide # 20

I will now end this part of the presentation with main highlights occurring during fourth quarter 2008. In the E&P segment the working interest production was stable Q-on-Q but results were affected by a lower price. Refining & Marketing had a stellar performance with margin up 25% year-on-year and also benefiting from a positive time lag effect of €105 million. Gas and Power operating result was impacted by the outcome of the arbitrage process while natural gas volumes were hurt by the price competition of coal and fuel oil in electrical and trading segments. Capex in the quarter reached €1.1 billion increasing the leverage level.

And now I will hand over to Manuel Ferreira De Oliveira who will proceed with our strategy update.

Manuel Ferreira De Oliveira, Chief Executive Officer (CEO), Galp Energia

Thanks Claudio. Thank you very much to all of you that are on the other side of the line hearing what we have to share with you. My job this morning is to share with you the fundamentals of the strategy that we are executing at Galp Energia. And in a way or the other inform you about the progress that we have been achieving in the different segments of the business.

I'm following the presentation that I'm assuming that you have in front of you.

Slide # 2

The first slide in page number two summarizes in a snapshot the fundamentals of what we are doing. We are working to move our production level from 15,000 barrels to 150,000 barrels a day and we have resources to do that. Our diesel production through the structural investments in our refinery from 100 to 140,000 barrels a day. Also to integrate our marketing activities into our refinery operations, in a manner that we are able to place in our customers all our refinery production and we also are working towards increasing the supply of natural gas and/or LNG to 12 bcm from the present 6 bcm per year that are enshrine in the Nigerian and Algerian contracts. That's basically the long term objective that drives our strategy.

Slide # 4

I will start now moving business by business and summarize where we are and where we want to be. The first one, first slide, slide number four, summarizes the resource base that we are working with in the E&P area and we are proud to announce that in 2008 we are reporting a 2.1 billion barrels of contingent resources as certified by DeMac.

These represents an extraordinary achievement from the results obtained with the drilling program in the Santos Basin. Most of it, out of 2.1 billion barrels of contingent resources comes from the Santos Basin as you would expect. I would also add that in our exploration program we are working with leads and prospects that could add another 2 billion barrels to our resources if they are successful as we expect.

Slide # 5

The following page you will see the acreage that we are working with. We are working in an area of 68,000 square kilometers and with net exploration area to Galp of about 12,000 square kilometers. That is the support of our exploration program that is extended from Timor, Mozambique, Portugal, and the Brazil including naturally Angola where the exploration phase is in its terminating stage.

Slide # 6

In the next slide, in slide number six, I would like to summarize the drilling program that we have approved for 2009. The slide talks by itself in most of the acreage we are working still in the seismic phase basically lifting data with 3D quality. In terms of exploration, we are only drilling two exploration wells, one in Angola in the LNG II exploration program there where we expect to start the program, the drilling program there and another in Espirito Santo Basin in the Pre-Salt area in BM-S-31 where we have an equity of 20%, we expect to drill in what looks like a very exciting prospect and complete the well during the last quarter of the year. These are the two exploration wells that we will be drilling offshore. Onshore in Brazil as you are aware, we have a small operation going on with very, very, with a small capex attributed to it. That continues the ongoing program in the three basins of Potiguar, Sergipe Alagoas, and Espírito Santo. This year we will be drilling three exploration wells there.

Just as a note our success rate in this exploration program has been to-date about between 25 and 30% very similar to the average of Petrobras in onshore activities. In the appraisal wells we have, they are listed in the slide and they basically are linked with the development of forth coming production.

Slide # 7

I will move now to the next slide. In Angola our production according to our plan will rise up to 26,000 barrels a day and close in the planning period in 22.000 barrels a day. Obviously the entitlement production is lower than the working production and it will be affected by the pricing of crude oil. In 2013 we are assuming $65 per barrel which leads to an entitlement production of about 16,000 barrels a day. You will see that we have still fields to be developed that will support the production beyond 2013.

Slide # 8

Now let us move to the Tupi field. I would say that I support fully the statements already made by both the CEOs of Petrobras and the BG that dedicated to this topic more time that I will do because I would simply repeat what they have said. But, in what refers to us, we have allocated to the Tupi field capex of €350 million totally consistent with the undergoing program there. We will have in the second Q this year the start up of the first production that is called an extended well test. The FPSO is now navigating towards the location and the remaining activities are being developed and on schedule. As far as the first production unit called either Tupi 1 or pilot project, depending on who refers to it and the production capacity will be around 100,000 barrels a day in terms of oil processing. The gas processing capacity 4 million cubic meters a day which is approximately 20,000 of oil equivalent per day. And the pipeline infrastructure that links the location to another gas hub in the offshore Brazil is under design and expected to be completed before the end of 2010. So, nothing new on Tupi. We simply are executing the approved projects there.

Slide # 9

From Brazil we expect throughout the period to achieve a production of 18,000 barrels a day, as indicated in the slide.

And in 2014 just on the other side of 2013 we will expect to start-up another project from Iara whose investment is contemplated in our present investment plan. The other projects in Iara, Bem-te-vi, Caramba and Jupiter are well tests, complete well tests to support the development project that will have to be approved by the authorities and the consortium.

Slide # 10

Now, let's move to the globality of our E&P region which is summarized in slide number 10. What it says, it says that we are now producing 15,000 barrels a day and we have resources to more than support 150,000 barrels a day. The rate of growth to that level is dependent on the investments made in the different fields where both in

Angola, but fundamentally in Brazil.

We expect to be around 80,000 barrels plus in 2015 and achieve a higher level than 150 in 2020. That represents a composite annual growth beyond 20% which is quite exciting to our corporation.

Slide # 11

The total capex in our business plan is about €1.9 billion as referred to in slide number 11. Most of it is allocated to development. If you remember previous presentations, most of our capex was allocated to exploration, now we are becoming a more standard E&P company with most of the capex allocated to transforming resources into reserves and reserves into production.

You see that we still have relevant capex in Angola associated with the development of Block 14 particularly the completion of the Tômbua-Lândana project which will start-up by the end of this year and the Block 32 where development project is being put together with a consortium. That represents if we look at EBITDA of the division, we will expect to grow at something between 17 to 20% a year in terms of EBITDA, very similar to the volume growth which indicates clearly that this is quite an exciting project not only from the operational point of view, but also from the reserves point of view.

Slide # 13

Now, I'm moving to our refining project, which like the E&P is transformational to our company. We are now in slide 13 and I want to remember you that we have, we are executing actually in the construction phase the project in Sines and Porto refinery. They will make these assets of European class. Unfortunately for them now we have underinvested in the past and we are really bringing the technology of these assets to today's market needs. Fundamentally increasing the production of middle distillates and reducing the relative production of fuel oil. The result with our today's vision of the market would be an increase in refinery margin ceteris paribus that is everything else being equal on the existing refinery margin we will be adding approximately $4.5 a barrel by 2012 of which 0.8 result from energy efficiency programs that are ongoing and are executed in parallel with the process investment in the refinery. The project is ongoing, construction has started. The major pieces of equipment have been ordered and we are confident to say that Porto will be completed by the end of 2010 and Sines by the 2Q of 2011.

Slide # 14

I am moving now to the Marketing area where our focus has been not only on cost, pricing, extracting premium values to our service but also to integration. The major investment that we made last year acquiring the Agip and ESSO operations in Iberia which results will be started to be shown this year will have led the integration to a level of 94%. We still have 6% if we want to be theoretically ambitious matching our ability to sell our refining capacity but we have no specific project to achieve that. We will be doing it through organic growth basically in Spain where we have more room to grow than in Portugal.

Slide # 15

The fundamental behind our marketing integration is shown in slide 15. There is a line there that shows the evolution of EBITDA in the last eight quarters. And you see that EBITDA from the Marketing division is practically constant. And the refinery margins which determine the EBITDA of the Refinery division is volatile because of its nature. What these tell us is that the combination of two reduces the relative volatility of the business and then reduces the cost of capital. We have now a very comprehensive network of more than 1500 retail sites in Iberia. We are now re-branding them. We are modernizing them and we are ensuring that we have a consistent Iberian advertising strategy to sell to the Iberian customers.

Agip and Esso integration is going according to schedule and as reported when the acquisition was made, it will bring after the extraordinary costs that we will have with the rationalization and integration which will bring to the EBITDA of the business €120 million with fairly conservative assumptions.

Slide # 16

Now, if we look at the capex that we have in this division is still very high, it's still around €2.2 billion, fundamentally allocated to the Refining business, where most of the expenditure from the ongoing project is going to take place. It's going to take place in 2009, 2010, and 2011. So, this is at the year where the large investment in our refinery infrastructure is going to be focused.

In a conservative scenario, we will see the EBITDA of the division growing at annual rates of 11%, in a more likely scenario at an average annual growth rate of 13% which we consider also exciting.

Slide # 18

In the Gas and Power division, when we look at this division, we have to look at the regulated activities and the non-regulated activities. The regulated activities are basically the natural gas distribution and we are operating slightly above 10,000 kilometers of pipelines in Portugal and we are increasing annually this network by bringing into our customer base something between 40 and 50,000 customers per year. The capex allocated to that project in the period is around €279 million and they will be remunerated with the pre-tax return on assets of 9%. As far as the underground storage we have a program going on to increase our natural gas storage of €48 million which will be remunerated with a rate of 8% before tax.

Slide # 19

The investment and you can see the volumes in slide 19 that we expect to sell, basically taking into account the incremental demand of our own operation which is the combined cycle plant and the cogeneration plants would increase the sales volume from 5.6 to 7.1. We are not more ambitious in these gas volumes because we don't have yet further supply contracts. We are working hard the Executive Board is spending a lot of its time to ensuring that in due time we'll bring more gas to improve the quality of our portfolio of supplies and to support the volume growth that we have ahead of us in the Iberian peninsula.

Slide # 20

The business will offer us according to our best expectation EBITDA growth that could change between 10 and 14%.

Slide # 22

In that slide you can see the split of our capex from the existing businesses.

We are fundamentally maintaining the total capex. We have taken into account when we look at the capex, the reduction of the engineering and construction costs that we see ahead of us and with €5.2 billion we expect to do more than we are supposed to do with the €5.3 million in the previous plan. We are now shifting the investment from Refining & Marketing to E&P although still in the plan Refining & Marketing represents the majority of the investment, but post 2013 the capex will be unequivocally allocated preferentially to E&P.

Slide # 23

The total portfolio of Galp Energia as we have it with assumptions that this year let me emphasize to you are more conservative than in our previous plan. In our previous plan 2007 to 2012 we approximately a year ago shared with you the opportunities for the growth of above 12% a year. And in the existing business plan we expect annual growth of about 15, a composite annual growth of slightly above 15%. So we believe that we have optimized our efforts to grow that we are offering the shareholders an attractive growth rate, through projects that are fundamentally solid and competitive.

Slide # 25

Now the answer to a question that everybody is asking us. Is how are we going to finance this project? There is one fundamental constraint; we are fully committed to have a strong and trustable capital structure.

That is the constraint that we have in doing what we expect to do. We also have exciting projects ahead of us that we are committed to develop. Our cash flow generation under a standard scenario is about €0.8 billion. We have by the end of year a liquidity of approximately €0.6 billion. So, we have funds of about €1.4 billion. We have already secured this year from the European Investment Bank a loan in attractive terms of €500 million. And we are now closing some other banking transactions to give us the comfort of looking ahead without any concern. So, we have no concern and I would like to emphasize this for financing our investment program in 2009 and in the first part of 2010.

What we have concern is about 2010, the second part of 2010 and 2011. Due to the statement I made before that we would like to secure, be committed to a strong and trustable capital structure.

Slide # 26

What are we doing? You can summarize that in slide number 26. We are doing what anybody else would do in our conditions is making sure that we optimize our capex that we avoid capex that does not fit completely in the strategy that we are pursuing. We are focusing on our cost structure, so that our operations are geared towards cash flow and we are continuously looking at our balance sheet.

In order to strengthen the balance sheet we have many options ahead of us and what I want to tell you is that whatever decision we take would be executed until the first Q of 2010. And we have now throughout the second Q to assess the different options ahead of us. Those are the options that are familiar to everybody. One option would be a capital increase at holding level, an option that would be study and other option is to see whether at the business level we could raise equity by spinning of part of the business and then other option is asset rationalization and optimization.

We would try to do that. The only criteria that the Executive Board is committed is to make sure that whatever proposal we make is the one that creates more long term value to our shareholders and that the one that is sustainable on the long term. The reference shareholders are totally committed to support the company in materializing the best solution that would come from this exercise. The exercise is relatively complex and is ongoing.

Slide # 27

Now to conclude, I would say that our business trend will offer us the opportunity of growing our EBITDA at about 15% per year supported by all business segments and that our resource base now in order of 4 billion barrels of which 2.1 are contingent resources and 2 billion are unrisked prospects, will continue being developed throughout the investment program that we've referred before.

Additionally and to conclude, my last statement is that contrary to what some would expect, we are very happy to have financial issues ahead of us because financing profitable growth is always a good problem to have and all of you know the solutions that we have to face and the only issue that we have is to make sure that we choose the best solution.

Thank you for your attention. And I'm available to respond to any questions that you might have either myself or my colleagues in the table with me.

Questions & Answers Session

Q - Pablo Pena-Rich, BPI
Hello, good morning. This is Pablo Pena-Rich from BPI. I got just two questions; one is on the results about the Refining margin spreads. It has been reduced from previous quarter to this one. I was wondering if you could give us an explanation of the reason behind this reduction and the expectations you have for other quarters in terms of refining margin spreads and also the view regarding of the benchmark refining margins? And second one is related to the strategic plan, I was wondering which is the oil price scenario you've got as a base case for the strategic plan? Thank you very much.

A - Manuel Ferreira De Oliveira, CEO, Galp Energia
Okay, thank you. Thank you for your question Pablo. Let me tell you that you've seen in the presentation that Claudio summarized that we have a reduced spread that was in the fourth Q, that was due to the fact that Sines refinery has an outage, a 40 days outage that was then extended because the FCC had a major repair immediately after the outage, as a consequence of the works done throughout the outage. So, we operated at more hydroskimming based refinery, so a hydroskimming based refinery has a lower spread. So, in fact last year we lost income opportunity because of the scheduled outage and because of the unplanned repair that we had to make in our FCC at Sines.

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So, what that means that we could have had better results last year but the process has not been changed. What we have is we expect to maintain the standard spread over benchmark which is basically, the spread is related to location and process. So, you change the spread when you change the process or when you, the location is the one that we cannot change.

As for as the second question we have business plan which is basically takes us some more or less the present situation of 45, $50 a barrel that we expect to occur throughout the year and going up slightly up to $65 a barrel by 2013. So, that's a scenario that is behind the expected growth in EBITDA that I shared to you before.

Q - Jason Kenney, ING
Hi there. I had a question on the dividend policy which I think in the past you've guided a 50% payout and quite good to see the dividend commitment this time around and obviously confidence in your earnings progress going forward. But it's slightly higher than the 50% payout guidance. Is it the policy to grow the dividend from here or to just maintain dividend current levels at least or is there is a payout guidance? Secondly, I had a question on the Q4 gas volumes. I know that you had a record year in terms of full year gas volumes in the natural gas business, but on the fourth quarter, obviously competitive pressure from fuel switching, could you give us the outlook for the early part of 2009 and maybe further out if possible?

A - Manuel Ferreira De Oliveira, CEO, Galp Energia
Okay, the first one is the dividend policy that we communicated to our shareholders in the shareholders' meeting that we would distribute 50% or approximately 50% of the net profit calculated at replacement cost. That's agreed or at least shared dividend policy, and we try to stick to it. So, last year we actually gave slightly more because we saw that in the market everybody increased the dividend slightly and we had solid results that would support it. This year we maintain the policy. We rounded them in fact you do the sums the dividend that we will be distributing 56% of the net profit calculated at replacement cost. We expect and we have no reasons to change this policy this year because we are facing a big capex program ahead of us we found it prudent not to increase the value per share of the dividend. But we maintain the respect to this principal of taking as reference 50% of the net profit calculated at replacement cost.

As far as the gas volumes Q4 was dominated was the opposite to the beginning of the year where, because of the raining season the hydroelectric plants were running at full capacity and the coal plants also running at full capacity.

So, reducing the role of the gas in the electric portfolio and that reduced the consumption. That's, we also had, by the way that coincided with a reduction of availability of gas from Nigeria, which matched the fact that the market also was not asking for it.

Q - Jason Kenney, ING
Can I interpret from your dividend policy comments that you've reached a level that you are comfortable with and there is no reason to expect a decline from this level if your oil price scenario is to be born out over the near term?

A - Manuel Ferreira De Oliveira, CEO, Galp Energia

You see that policy is not our policy. It's a policy of the Board confirmed to the shareholders in the shareholders meeting that we have as reference 50% of the net profit calculated at replacement cost.

So, if the net profit declines you will have potentially a reduction in dividend. If it increases we will increase the dividend. However, the business plan indicates that we have a healthy growth ahead of us. With probably an exception of the existing year because nobody can reliably forecast the results of the year like the one that we are in. But, once we are out of this storm we believe that we have a continuous growth in our EBITDA and in our net profit.

Q - Hootan Yazhari, Merrill Lynch

Hi, good morning gentlemen. I just had a question regarding your capex program and how it relates to your funding issues. You mentioned that you might look to optimize the capex program. I just wanted to see what further optimization you area able to do, would that mean delaying the refinery upgrades, is there a scope to renegotiate the contracts on the refinery upgrades or other projects that you are doing. I just wanted to get some guidance on there?

Second question I have was regarding the outage of Sines, I just want to see what sort of insurance pay you are expecting on that? Thank you.

A - Manuel Ferreira De Oliveira, CEO, Galp Energia

Hootan, welcome back from your previous quest. So, thank you for coming back to our family again. Let's look at the investment to capex, the first question that you made. We looked very carefully at our capex. We have flexibility in the total items of the capex to move forward or backward about €500 million. And that will adjust us to the timing we will use it depending on the timing of the structural decision that we are trying to, that we are developing know.

The refining project is going on. We actually to, if we want to create value to our shareholders the sooner we finish it the better because it's quite an attractive project that we are developing and we see no reason why that should not move forward according to the existing schedule. Obviously we are taking opportunity to pass the, to negotiate with our suppliers everything in the present environment and this is why we believe that we have our capex well controlled. So the environment is supportive to a good execution of the capex.

As far as the outage in Sines, as far as the accident in Sines, we have that we are familiar with. The refinery is now starting up again. We have an insurance policy that protects us on relevant issues and Claudio will summarize it to you the terms of that insurance and what we are now is working hard to have the refinery full operational and we hope to have it in back to normal by the end of this month with units being commissioned on a continuous basis. Claudio, do you want to summarize the insurance policy that is operated?

A - Claudio De Marco, CFO, Galp Energia

Yeah, yeah, yeah, we have an insurance policy, we have a business interruption in insurance policy, but that start after 60 days over the interruption production. In terms of insurance costs, our expected cost of the accident is about 20, €25 million. All of these costs are covered by the insurance, we have just $1 million that is not covered by our insurance.

A - Manuel Ferreira De Oliveira, CEO, Galp Energia

The business interruption loss as Claudio said would only be applicable if the accident would last beyond 60 days. Fortunately, we hope to have it up and running under normal conditions much before the 60 days of period.

Q - Theepan Jothilingam, Morgan Stanley

Hi, good morning gentlemen. Three questions actually, just firstly if you could talk maybe specifically on where you see the range on capex for 2009 and how much flexibility you have around, and I know you sort of talked about the medium-term? And secondly, just to provide maybe a little bit more flavour on activities on Júpiter for this year I see you've sort of outlined an extended well test for 2011, 2012, and I was just wondering if you make it more news flow on Júpiter in the next 12 months? And thirdly, just on medium-term financing I want to know whether you have spoken to your existing co-shareholders about whether they would participate or not in any further sort of equity issue and is one of the options perhaps diluting your stakes in Brazil? Thank you.

A - Manuel Ferreira De Oliveira, CEO, Galp Energia

Okay, so, as far as our capex this year is in the order of €1.4 billion as in the plan and we have flexibility on it. We have several items that we can either escalate or delay. So, we are totally inline with the funds that we have available to keep our operations going on without any stress. So, as far as the total capex I referred to you for the period is €5.2 billion calculated with assumptions I referred to you before.

As far as Jupiter what we have, what the consortium because as you know in Júpiter the shareholders are ourselves with 20% and Petrobras with 80%. We are now having an early well test which is depended on the availability of the FPSOs and as you know the final well test is a long term well test that will last more than six months. We require permission from the authorities to flare certain gas. The nature and scope of the test depends on the permissions that are given to the project. We don't have them yet. But assuming they are similar to the Tupi we'll be probably moving the test unit, the FPSO from location to location in a sequential manner to optimize costs.

Obviously, the development plan, the solid development plan has to be aligned with the well test that keeps complete information about the reservoirs. We see for Júpiter a similar development to the areas that area ahead of it which is as you know Tupi and Iara. But we have not yet fixed dates for the start up of the first production volume for Júpiter.

In terms of medium term financing, I'm going to simply repeat what I said. I said that our shareholder, our referenced shareholders that subscribed the shareholders' agreement Amorim Energia Caixa Geral de Depósitos and ENI know and are supportive of the business plan that we have – that we have on place and we'll be supporting the decision that we take. We will not take a decision that is not supported by the three of them.

And as far as I'm aware from the discussions that I had with the three referenced shareholders is that they will support the decision that creates more long-term value for the company. And you referred whether about the Brazilian issues they are – they are in the Santos Basin. But we have other assets in Brazil other than the Santos Basin. But we consider the Santos Basin today, a major strategic asset of the company and the reason why we got discussing most of the capex issues is to support the development of the Santos Basin. Thank you.

Q - Iain Reid, Macquarie

Hi. Good morning gentlemen. I think, I have about four questions less or maybe three, but I think you've answered the shareholder one just then. Firstly, your exploration upside number of 2 billion barrels, do you think you could just flush that out a bit and tell us where that is, is that in potential appraisal upside and existing fields in the Santos or is it new prospects either in Brazil or elsewhere? And secondly on your capex and production growth numbers, you gave up to 150,000 barrels a day in your plan in 2020. I wonder if you could just tell us what's in that 150,000 barrels a day, is Jupiter in there, is Caramba in there, is Bem-te-vi in there, what does this mean in terms of the capex which you've outlined, is there any other capex for those developments in there as well? And thirdly in terms of debt and gearing, you've said you confirmed yourselves with additional debt in 2009 what sort of maximum gearing are you targeting here? Where do you think you don't want to go above in terms of your gearing level over the next couple of years? Thanks very much.

A - Manuel Ferreira De Oliveira, CEO, Galp Energia

Okay, thank you. I'll take the first two and let Claudio answer to the third one. So, the exploration upside, we have, as I referred to you we are working in 68,000 square kilometers of acreage in the countries that basically Portuguese speaking countries as if you look at the places where we operate. What we did, in a lot of places we already have 2D seismic completed, in some we are now in the phase of 3D seismic. Most of the acreage is in Brazil, most of the prospects. So we know already what is called the leads and prospects and we are able to attribute a probability of success on that. Because we have this internal numbers calculated by our geoscientists, this year we asked the DeMac to access the prospects that we have. They issued a report to us and the number that we summarized to you is the mean, as you know when we talk about leads and prospects we always present the gauss curve, taking into account many random variables that are associated with that activity and the mean value of the prospects and leads that we are and leads that we are working with as calculated by DeMac with the data that we supplied to them is about 2 billion barrels. And is to transform these leads and prospects into resources the support of our exploration program, the development program dedicated to the transformation of resources into reserves. So, we have a very good base for exploration, basically Brazil in the Santos Basin, in the north in the Espirito Santo, in the Campos Basin, Potiguar Basin, and Amazonas Basin. We operate on those areas. We also have attractive prospects in Timor with a high-risk material risk but still reasonable expectations in Mozambique and in the deep offshore Portugal that we clearly see with lower probability of success. So, it's fundamentally what we have in that resource base. I want to emphasize that these unrisked exploration has been identified basically commercially on 2D seismic. Thank you.

I know as far as production with the existing resources 150 thousand barrels a day is well supported by that resource base. The growth rate depends on development of the projects which are influenced by us, but not necessarily determined by us. We are part of consortium, so we have to align ourselves with the decisions of the other partners in the different consortiums. If you ask me not as a CEO of Galp Energia, but as an oil person I think it is very easy to achieve 150,000 barrels a day. So, the resources are there. Now it's a question of which is the right moment to bring them to the market. Thank you. Claudio, could you take the last question?

A - Claudio De Marco, CFO, Galp Energia

In terms of debt policy, our objective is to maintain an investment grade rating and then we maintain a strong financial profile over the time. As you know in 2009 we reach peak in terms of debt and this is the reason why Manuel said that we are starting a capital structure revision. In the longer-term, in order to maintain an investment grade position in the longer-term, we maintain a ratio in terms of a debt on equity lower than 100%.

Q - Iain Reid, Macquarie

Thank you. Could I just come back on the 150,000 barrels a day. So, if -- are you saying it does include all of your the resources discovered in the Santos and is the 150,000 barrels a day the peak or do you think there is further potential above that?

A - Manuel Ferreira De Oliveira, CEO, Galp Energia

You see -- when we defined the target of 150,000 barrels a day had to do with resources. So we are not counting to support that target with the unrisked prospects that we are developing, so if you want to be a little bit theoretical the unrisked prospects are just to them to support the continuation of the production, if they are successful. From the existing resources, just to have a number, 2 billion barrels, if they were put in production simultaneously, they would support 150,000 barrels a day by approximately for 20 years or so. -- no sorry by 40 years, the number is 40 years, I've been corrected now. So with 2 billion barrels, I repeat it again if they were all in production and with a constant production, they would produce 150,000 barrels a day for 40 years. So, we are quite comfortable that the 150,000 barrels a day is a conservative ambition and sustainable on a long-term basis. Then it's still supported by the existing prospects that we are working with. We show this graph to let you – to let our shareholders understand that we are not now -- we don't need to search for more prospects. What we have now is to focus on completing our contractual obligation in the existing exploration contracts and focus on developing of the existing resources.

Q - Gianmarco Bonacina, Equita

Yes, I have a question regarding the capex in the Santos Basin. If you can provide a safe security on the level of the oil price to which you think that the capex for you is less interesting in the sense that your hypothesis is that the oil price will go back to $65 by 2013, and if we assume carrying one as the crystal ball, but the oil price will remain at $40 for the next 10 years. This -- under the scenario you will probably reduce the capex in the Brazilian pre-salt or not? Thank you.

A - Manuel Ferreira De Oliveira, CEO, Galp Energia

Okay, thank you for your questions, because it gives us an opportunity to clarify that. The Santos Basin is one of the largest geological jewels that nature offered to the oil and gas industry in the recent times. So, when we look at it in this way, the evolution of the cost structure in that region would be not much different than the evolution that happened in the North Sea when it was discovered in the late 60s. And if you have, if somebody has memory either personal as I do or by studying, you see there would be a continue reduction in unit costs, as the area is being developed.

So, the Santos Basin will be developed. So, what we can add now is what is, what, with the present economic context, what is the breakeven values if the world, the future world will be similar to today's. The numbers have been already released by Petrobras, by BG, and we are comfortable with the investments that are ahead of us with oil price scenario similar to the one that we have now which basically is a number between 35 and $50 a barrel or some say between 30 and $50 a barrel. So, that would allow us to continue. But the fundamentals of the business indicate that the marginal cost of supply in the world would be beyond $60 a barrel. And that will support and accelerate the development of the Tupi. So, how the industry sees the future will affect the speed of development rather than development of this prospect.

Q - Gianmarco Bonacina, Equita

Yes, just to clarify, so the difference is just related to also saving on the tax, basically that there is, will be much lower if the oil is at $40?

A - Manuel Ferreira De Oliveira, CEO, Galp Energia

The regime in Brazil is not that – is not a PSA. It is not a production sharing agreement. It is a contractual agreement that has already been released. It is fairly, fairly simple to understand. And it does not – you'll see is that we pay the taxes, corporate taxes and oil taxes that are associated with the production label and so.

So the royalties remain as the function of the price. So, the formula of taxation is fairly straightforward and it does not affect the, well affects the fundamentals of the decision, but in accordance at consistent manner. It is not the production sharing agreement like in the offshore Angola or most of other countries.

Q - Kim Fustier, JP Morgan

Yeah. Hi. Good morning gentlemen, just two questions please. Firstly offshore Brazil and the Sines refinery upgrade at the top of your priority list, I think you call them transformational projects. But if you have to rank your other growth projects in particular in gas and power what would you – what would be your order of priorities there. And on which projects in gas and power have you already broken ground?

Secondly in refining you've got it to an increase in the refining margin of $4.5 per barrel from the Sines upgrade, which I believe is higher than your previous guidance of $2.5 a barrel. So, can you talk about the reasons behind this increase and are you still planning on the $175 per ton for the diesel fuel oil spread. Thank you.

A - Manuel Ferreira De Oliveira, CEO, Galp Energia

Okay. So, obviously if you ask us what is the priority of investment is clearly the development offshore Brazil, is clearly the completion of the upgrading of our refineries, to bring them to European standard in terms of process efficiency, and also the development of our supply of gas to our business. So, and our priorities will be defined by the return on investments, as simple as that. So, we have no, if we assume a scenario where we are constrained on investments, we'll try to maintain the strategy that we have which is coherent and we will try to prioritize the investments according to their return and risks. Typically for instance the Gas and Power investments are slightly lower return but very low risk.

The upstream business after discovering is low risk, high return, the refinery business is middle return and some risks because of the volatility associated with that. So, we will take all that metrics and take rational decisions. As far as the refinery margins that we are referring to what we are including there as well, we have been reporting in separate items that improvement in refinery margins associated with the process and the improvement in refinery margins associated with the energy efficiency program that is going on. We are investing a lot of money to ensure that a better efficiency of the refineries. And I'll tell you 1% increase in efficiency is a lot of money. So the work is going on. We have built one cogeneration plant in Sines that is now being commissioned. In Porto we're starting up the construction of a cogeneration plant and we are investing some, in some other process units to increase the efficiency and is the overall result of that total capex that in the refineries it is of about €1.6 billion in the program, so it would bring in this $4.5 a barrel of incremental margin. The number is consistent with the previous numbers that mass balance now is much more accurate because we have closed the process we are already in detailed engineering and then as we have the numbers now more adjusted to what would come after the project is materialize.

Q - Anish Kapadia, UBS
Good morning. Couple of questions for me, firstly, going back to Brazil again I was just wondering if you could talk about Petrobras' prioritization of the various prospects that you've got in Santos basin and in some of other basins where they've started to make some major discoveries, that's first question. Secondly, just looking at, just I'm thinking your strategy at the moment, you've got the majority of your resources, majority of that your company is now focused in Brazil. I was wondering if you are now concerned that you are over exposed to Brazil than you're looking to possibly farm out of some of those assets. And then kind of related to that also do you still see the validity of the integration of the Gas and Power business with the integrated oil business at the moment and given the different nature of the risks involved? And it is my final question.

A - Manuel Ferreira De Oliveira, CEO, Galp Energia
Okay. So, it would not be proper for me to comment on Petrobras prioritization of their investments. What we know is the investments that we work with Petrobras, Petrobras is highly focused in the development -- Petrobras and we are highly focused on the development of BM-S-8, which was the first class discovery which includes Tupi and Iara and just quoting the CEO of BG, Tupi could go to a level of 1 million barrels a day and Iara to 500,000 barrels a day.

If you just – if you take these as reliable information, if you add BM-S-11 will get to 1.5 million barrels a day, 10% which is our equity, is 150,000 barrels a day. So, we are focused on that to development in Tupi and Iara, in fact there are plans, but we will take one step at a time. There are plans of bringing additional modules, the speed of development depends on a lot of other variables. So, we'll take one at a time in our considerations.

Another major development that is on extreme strategic value for is our presence in Jupiter because of the nature of the reserves that is a lot of natural gas there, which is a resource that on a long-term basis, the western world needs and we are very focused on it. And actually, our priority is overlaps the priority of Petrobras that also needs gas to the Brazilian market. So, the second priority as far as we are concerned is actually Jupiter after BM-S-11. The other two Caramba and Bem-Te-Vi, the development problems have not yet been discussed in detail and that is a function also either of the developments in the neighbourhood to make sure that we are share infrastructure to optimize total capex. As far as been over exposed to Brazil we do not consider that we are over exposed to Brazil. We consider that our presence in Brazil is solid, is respected and that and we want to grow on that market and we don't feel any risk on it. That this not mean that we will not – continuous look at asset optimization as every corporation does, and we will look at it with – always with a rational mind and not with an emotional mind. Did I answer your question?

As far as Gas & Power, a very simple summary of why are we in power. We are in power because any gas company needs to offer to their customers as in today's world a dual fuel offer. So we need to have power, and we need to be able to monetize gas under certain market condition. So going to the gas to power business is as if we were in the gas business. Then we have some complementary projects on the power business which were considered with fundamental of insuring that we have an average price cost of kilowatt hour that we could be offered to our customers that is competitive with the large operators. So we will in this business the operators of the gas business would be always a gas focused company with some activity in power like the utilities would be a power companies with some activity in gas, and these out of this competition that the market will develop. We see our Gas & Power business and like our oil distribution business is a stabilizer of our cash flows and income. These are lower return but lower risk businesses that complement very well the higher return, higher risk businesses associated with Refining and E&P. So we see that the portfolio of business that we have is consistent with our strategy and consistent with good practices of the industry. So, if I answered you, I would like to, for those that are still online that on behalf of Claudio and Tiago.

So, what I like is to thank everybody who have taken the time to hear from us and our Investor Relations officers particularly Tiago Villas-Boas will be always available to clarify any questions that you might have on Galp Energia. Thank you once again and have a good day.

Galp Energia, SGPS, S.A.

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